



Agenda Date: 7/19/06

Agenda Item: 2C

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

ENERGY

IN THE MATTER OF THE PETITION OF ATLANTIC)	DECISION AND ORDER
CITY ELECTRIC COMPANY FOR APPROVAL OF THE)	
SALE OF ITS KEYSTONE AND CONEMAUGH		
GENERATION STATION ASSETS)	DOCKET NO. EM05121058

(SERVICE LIST ATTACHED)

BY THE BOARD¹

This matter concerns a petition dated December 21, 2005, filed by Atlantic City Electric Company ("ACE" or "Company"), requesting that the Board of Public Utilities ("Board") approve the sale of the Company's 3.83% minority interest in the Conemaugh Generating Station ("Conemaugh"),² its 2.47% interest in the Keystone Generating Station ("Keystone")³, and related assets to Duquesne Light Holdings, Inc. (hereinafter "DLH"), or one or more wholly owned subsidiaries of DLH. The proposed sale price for the assets is \$173.1 million. ACE also seeks approval of the treatment of the net proceeds above book value and expenses associated with the sale. The filing estimates that the \$173.1 million sale price will translate into net proceeds for ratepayers of \$134.2 million, assuming a transaction closing date of September 1, 2006.

ACE is a corporation organized and existing under the laws of the State of New Jersey and is engaged in the production, generation, purchase, transmission, distribution and sale of electric energy for light, heat and power to residential, commercial and industrial customers, and thus falls under the Board's jurisdiction. N.J.S.A. 48:2-13. The Company's service territory includes more than 500,000 customers in the southern portion of New Jersey.

¹ Commissioner Joseph L. Fiordaliso did not participate in the vote or deliberation in this matter.

² Conemaugh is jointly owned by ACE, Baltimore Gas & Electric Company, Delmarva, Pennsylvania Power & Light Company, PECO Energy, Potomac Electric Power Company, Sithe Energies, Inc. and UGI Utilities, Inc.

³ Keystone is jointly owned by ACE, Baltimore Gas & Electric Company, Delmarva, Pennsylvania Power & Light Company, PECO Energy, Public Service Electric and Gas Company and Sithe Energies, Inc.

DLH, the proposed purchaser of the Keystone and Conemaugh assets (collectively, the "K&C Assets"), owns Duquesne Light Company, an electric utility operating in western Pennsylvania. DLH also owns non-regulated entities, including Duquesne Light Energy, LLC, a retail electric supplier, and Duquesne Power, L.P., which maintains a portfolio of energy commodity contracts. DLH and its subsidiaries currently own no significant generation assets.⁴

The K&C Assets to be transferred are defined in Section 2.1 of the Purchase and Sale Agreement ("PSA") between ACE and DLH and include: (1) all the real and personal property comprising ACE's minority interests in Keystone and Conemaugh; and (b) ACE's interests in certain operating agreements and related assets associated with Keystone and Conemaugh, including its interests in Conemaugh Fuels LLC and Keystone Fuels LLC.⁵

Keystone and Conemaugh are both located in western Pennsylvania and are interconnected with transmission lines operated by PJM. The power from both plants is not utilized to serve load in New Jersey. Additionally, ACE's minority interest in the K&C Assets is equivalent to approximately 100 megawatts ("MWs") of generation.

BACKGROUND

The background to this matter is extensive and has already been set forth in some detail in prior Board Orders. However, for the sake of completeness and to put the instant issues in proper context, a brief recapitulation is set forth below.

In May 1999, ACE's then parent Company, Conectiv, announced that it intended to sell certain nuclear and fossil generation assets owned by its wholly owned utility subsidiaries, ACE and Delmarva Power & Light Company ("Delmarva").⁶ Conectiv indicated that its decision to divest ACE's and Delmarva's generation assets was motivated by, among other things, the development of an active market for the sale of electric generation units, its strategic business plans, and the passage of the Electric Discount and Energy Competition Act ("EDECA"), N.J.S.A. 48:3-49 et seq.

In conformity with EDECA, on July 15, 1999, the Board issued a Summary Order adopting, with significant modifications, a Stipulation of Settlement ("Stipulation") in ACE's rate unbundling, stranded cost and restructuring proceeding. I/M/O Atlantic City Electric Company – Rate Unbundling, Stranded Costs and Restructuring Filings ("Restructuring Proceedings"), BPU Docket Nos. EO97070455, EO97070456 and EO97070457 ("Summary Order"). The Summary Order approved ACE's unbundled rates and the various components to be embedded in rates pursuant to EDECA, including delivery and BGS rates, as well as non-bypassable Societal Benefit Charges ("SBC") and Market Transition Charges ("MTC"). The Stipulation provided, among other things, that, subject to certain conditions and Board approval, ACE would divest itself of its interests in its nuclear generation assets, as well as its fossil generation assets,

⁴ A DLH subsidiary, Duquesne Energy Solutions, owns one landfill gas fired, 10 MW (gross) turbine plant in Monmouth County, New Jersey.

⁵ Conemaugh Fuels LLC and Keystone Fuels LLC are non-jurisdictional limited liability companies owned by ACE and directly or indirectly by the other co-owners of Keystone and Conemaugh. The companies are used to buy fuel for the plants.

⁶ Delmarva is an electric and gas utility serving parts of Delaware, Maryland and Virginia.

which included its 100% interest in the B.L. England Generating Station and the K&C Assets (collectively "fossil generation assets").⁷

On August 11, 1999, ACE filed a petition with the Board, pursuant to N.J.S.A. 48:3-59(b), seeking approval of auction standards for the sale of certain of its fossil and nuclear generation assets. On January 4, 2000, the Board issued an Order Adopting Auction Standards. Among other things, the Auction Standards Order established principles for maximizing the sales price, continuing environmental stewardship, mitigating the impact on the incumbent workforce, and maintaining the reliability of the electric system. The Auction Standards Order required ACE to submit a petition for approval of any proposed sale of its generation assets at the conclusion of the auction, at which time the Company must demonstrate compliance with the Auction Standards Order, as well as other applicable laws, regulations and policies. I/M/O the Request of Atlantic City Electric Company for the Establishment of Auction Standards for the Sale of Certain Generating Units, BPU Docket Nos. EM99080605 and EM99080606.

Upon completion of the auction process, on January 18, 2000, ACE signed a Purchase and Sale Agreement ("PSA") with NRG Energy, Inc. ("NRG") for sale of its interests in Keystone and Conemaugh at a sale price of \$96.1 million. On February 9, 2000, ACE filed a petition requesting that the Board approve the sale. I/M/O the Petition of the Atlantic City Electric Company Regarding the Sale of Certain Fossil Generating Assets, BPU Docket No. EM00020106. The PSA was later amended to provide more time for Staff and the Division of the Ratepayer Advocate ("RPA") to evaluate the transaction.

Subsequent to extensive proceedings, including hearings presided over by Commissioner Frederick F. Butler, by Decision and Order dated February 20, 2002 in BPU Docket No. EM00020106, the Board approved the sale of ACE's Fossil Assets, including Keystone and Conemaugh, to NRG. However, by letter dated April 1, 2002, NRG exercised its option to terminate the purchase agreement.⁸

Following NRG's termination of the agreement to purchase ACE's ownership interests in the fossil generation assets, in May 2002 ACE determined to re-offer the units for sale via an auction process. The auction process was conducted during the summer and fall of 2002.

Four bids were received for Keystone and Conemaugh, but the Company rejected all of the bids. Although the Keystone and Conemaugh bids were above book value, they did not, in the Company's judgment, fully reflect the true market value of these units. On January 13, 2003, ACE announced that although it remained interested in selling its Fossil Assets on acceptable terms, it had rejected all bids and had terminated the auction process.

⁷ On March 30, 2001, the Board issued its Final Decision and Order ("Final Order") in the Restructuring Proceedings, which provided more detail and reasoning for the Board's summary decision. The Final Order also provided guidance with respect to the planned divestitures generally, including how the stranded costs of the divested units would be determined. (Final Order at 79-82, 89-92). The Final Order also set forth the accounting treatment for the to-be divested generating assets (which were to be used to provide Basic Generation Service prior to divestiture) and the revenues received there from, between August 1, 1999 and the completion of the divestitures, which accounting treatment included a 13.0% pretax return on investment (Id. at 92, paragraph 22).

⁸ On May 14, 2003, NRG Energy, Inc., and certain of its U.S. affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. In Re NRG Energy Inc. et al., Case No. 03-13024.

Since that time continuing through to the present, ACE has been using the K&C Assets for the benefit of its retail customers. ACE sells the energy output from its entitlement in the Keystone and Conemaugh plants into the PJM hourly energy market. After netting out the full revenue requirements associated with the assets (including a pre-tax return on the asset rate base of 13%), the net revenue is credited against ACE's deferred balance. In recent years (2003-2005), as market conditions have increased the value of generation assets, these net credits have averaged about \$15 million per year.

On May 6, 2005, ACE announced that it would again auction its remaining electric generation assets, including its interest in Keystone and Conemaugh. The competitive bidding process for these assets has been managed by an independent third party, Concentric Energy Advisors, Inc. ("Concentric"). The Offering Memorandum and associated documents for these generation assets were sent to potential bidders (upon the execution of a confidentiality agreement) and indicative bids were received on July 21, 2005. Final bids for ACE's interests in the Keystone & Conemaugh generating stations were received on September 30, 2005. Additional information was provided to the four highest bidders and they were requested to review their bids and re-submit their best and final offers on October 25, 2005. On November 1, 2005 negotiations began with DLH, the highest bidder, to finalize terms and conditions of the PSA. The PSA between ACE and DLH was executed on November 14, 2005. Pursuant to the PSA, the purchase price for ACE's interest in the K&C Assets totals approximately \$173.1 million or \$1,604 per Kw if the closing date is September 1, 2006.

PROCEDURAL HISTORY

On December 21, 2005, ACE filed the instant petition seeking approval of the sale of the K&C Assets to DLH. The filing estimates that the \$173.1 million sale price will translate into net proceeds for ratepayers of \$134.2 million, assuming a transaction closing of September 1, 2006. According to the petition, a transaction closing sooner than September 1, 2006 increases the sale price by \$32,877 per day, and a delay beyond September 1, 2006 reduces the value by the same amount per day.

On February 16, 2006, Staff of the Board of Public Utilities ("Staff"), ACE and the Division of the Ratepayer Advocate ("RPA") held a pre-hearing conference to establish a schedule for processing this matter, including discovery deadlines and the pre-filing of testimony. Additionally, evidentiary hearings were scheduled for April 24, 2006 before Commissioner Frederick F. Butler.

In accordance with the procedural schedule, the RPA filed the Direct Testimony of Matthew I. Kahal on April 6, 2006.

Subsequently, the parties commenced substantive settlement discussions. As a result of the progress being made in these discussions, the hearings scheduled for April 24, 2006 were adjourned. The parties then began drafting a Stipulation of Settlement.

After extensive and comprehensive negotiations, on June 29, 2006 the parties executed a Stipulation in this matter. The stipulation was designed to set the framework for the sale and transfer of the assets if and only if the Board found that the transfer was in the public interest and thus in conformity with the appropriate statutes.

Both the Division of the Ratepayer Advocate and the Company filed comments, as set forth in the Stipulation. The Ratepayer Advocate essentially noted the need for a policy determination and indicated its belief that any decision by the Board could be supported. The Company's comments were specifically in favor of a Board finding that the sale was in the public interest, and set forth a number of elements in favor of the sale, most notably the significant value to the ratepayers of an immediate sale as opposed to the possible future risk associated with continued ownership. At core, the Company called upon the Board to approve the sale.

STIPULATION OF SETTLEMENT

The Stipulation provides for the following:

- 1 The closing will not occur prior to September 1, 2006. The Agreement between Atlantic and DLH provides that for each day that the closing occurs after September 1, 2006, the closing price will be discounted by \$32,877, or approximately \$1.0 million per month. The Company represents that DLH has agreed that such discount will not be applied if the delay of the closing date beyond September 1, 2006 is the result of the failure by DLH to perform its obligations under the agreement.
- 2 The auction process was consistent with auction standards established by the Board pursuant to EM99080605, Order Adopting Auction Standards, January 4, 2000.
- 3 Paragraph 18 of the Petition is modified to eliminate the reduction in the net proceeds of the sale of approximately \$6.0 million associated with any book-tax timing differences, and that no such tax differential will be reflected as a reduction in the net proceeds of the sale, nor will ACE seek recovery in rates of such taxes.
- 4 Actual transaction costs not to exceed \$1.5 million will be used to offset the gain on the sale of the assets.
- 5 The Parties agree to use the net proceeds from this transaction to offset the remaining unamortized deferred balance pursuant to the May 26, 2005 Board Order in Docket Nos. ER03020110, ER04060423, EO03020091, and EM02090633. The remaining amount, with interest, will be returned to the Company's retail customers as a credit on a per kWh basis over a 33 month period, beginning the first full month following the closing of the sale.
- 6 The Company will continue to flow through to ratepayers or otherwise use the accumulated deferred investment tax credit (ADITC), excess deferred federal income tax (EDFIT), and accumulated deferred federal income tax (ADFIT). Should the flow-through or use subsequently be ruled in violation of normalization requirements of the Tax Code, the Board will reverse any flow-through or use accordingly.
- 7 The Stipulation is to be approved in its entirety without change or further conditions.
- 8 The Parties acknowledge that the decision of whether it is in the best interest of the Company's ratepayers to sell Keystone and Conemaugh or to retain the assets is a policy decision that rests with the Board.

DISCUSSION AND FINDINGS

The Board's determination as to the ultimate disposition of the K&C Assets is guided by EDECA and the requirements set forth in N.J.S.A. 48:3-59(c). Under this statute, the Board may only approve the sale of assets subject to recovery under EDECA if nine conditions are satisfied. These conditions are:

- (1) The sale reflects the full market value of the assets;
- (2) The sale is otherwise in the best interest of the electric public utility's ratepayers;
- (3) The sale will not jeopardize the reliability of the electric power system;
- (4) The sale will not result in undue market control by the prospective buyer;
- (5) The impacts of the sale on the utility's workers have been reasonably mitigated;
- (6) The sale process is consistent with standards established by the board;
- (7) The sale, merger, or acquisition of the generation or other utility assets includes a provision that the purchasing, merging or new entity shall recognize the existing employee bargaining unit and shall continue to honor and abide by any existing collective bargaining agreement for the duration of the agreement. The new entity shall be required to bargain in good faith with the existing collective bargaining unit when the existing collective bargaining agreement has expired;
- (8) The sale, merger, or acquisition of the generation or other utility assets includes a provision that the purchasing, merging or new entity shall hire its initial employee complement from among the employees of the electric public utility employed at the generating facility at the time of the sale, merger or acquisition; and
- (9) The sale, merger or acquisition of the generation or other utility assets includes a provision that the purchasing, merging or new entity shall continue such terms and conditions of employment of employees as are in existence at the generating facility at the time of the sale, merger or acquisition.

Here, a number of the terms are not significantly implicated, as the sale only involves single digit ownership percentages. Thus, employment and operational issues are not impacted, and conditions 5, 7, 8 and 9 are found to be satisfied.

As to the other issues, it is worth citing the opinions of the RPA in this matter. Specifically, RPA witness Kahal's pre-filed testimony recommends:

[T]hat there are two potentially attractive options for the K&C assets, the sale at \$173 million or retaining the assets for the benefit of ratepayers. The selection of either option by the Board can be justified. Even though the retention option under certain scenarios appears to show higher net present value benefits, rejecting the sale and retaining the assets would impose significant risk. In recognition of these risks, I believe it would be reasonable for the Board to approve the sale. I recommend against directing ACE to re-market the assets since there is no clear basis for believing that doing so would improve the sale price, and there is a risk that it might reduce it.

[Direct Testimony of Matthew Kahal at 7-4 to 7-10]

The record further reflects that although retention of the assets might provide larger dollar benefits in the short term, it has the potential to expose ratepayers to greater risk. Keystone and Conemaugh are both very large, multi-unit coal-fired plants. As coal plants, an important issue is the control of emissions. The record indicates that although Conemaugh is equipped with Fuel Gas Desulphurization (FGD) equipment to control SO₂, Keystone is not. Moreover, the two power plants are at least 30 years old.

The purchase price for the K&C Assets is nearly twice what the original proposed sale to NRG would have provided, and, according to ACE, is equal to or greater than any other then publicly announced sale of similar generation assets. Additionally, RPA witness Kahal notes that "the price of approximately \$1,600 per kW is in the ballpark of the cost of constructing an entirely new coal-fired plant. This price is an impressive result considering the plants are each more than 30 years old." [Direct Testimony of Matthew I. Kahal at 10-18 to 10-22]. As previously indicated, the \$173.1 million sale price will translate into net proceeds for ratepayers of \$134.2 million.

Based upon this uncontested discussion, and the understanding that the assets do not serve any load in New Jersey, the Board is able to find that the other conditions of N.J.S.A. 48:3-59(c) have been met. The price appears to favorably reflect market value, the sale can be, based upon mitigation of risks, considered beneficial to the rate payers, and the percentage ensures that there will be no negative impact upon either the competitive stance of the purchaser or the overall electric grid. As such, the Board HEREBY FINDS that the provisions of N.J.S.A. 48:3-59(c) have been satisfied.

Having fully reviewed the record in this matter, including the Stipulation of Settlement, the Board is satisfied that the petition and associated submissions provide a foundation for the finding that elements of N.J.S.A. 48:3-59(c) have been satisfied and that the Stipulation represents a fair and reasonable resolution of the issues and is in the public interest. Accordingly, the Board HEREBY ADOPTS the attached Stipulation as its own, and incorporates its provisions herein, as if they were fully set forth herein. Therefore, the sale of ACE's 3.83% minority interest in Conemaugh and its 2.47% interest in Keystone to DLH is HEREBY APPROVED. Pursuant to the agreement of the parties, the Board HEREBY ORDERS that the closing for the sale of the K&C Assets shall not occur prior to September 1, 2006. Additionally, should the closing occur subsequent to September 1, 2006, the Board FURTHER ORDERS that ratepayers are not to be harmed by such eventuality.

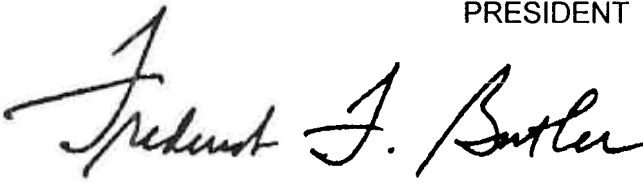
The Board HEREBY DIRECTS the Company to file with the Board, within 15 days of the closing date of the asset sale, proof of closing, the net transaction cost and supporting calculations for the per kWh credit to customers which will be subject to review by the Board Staff.

DATED: 7/21/06

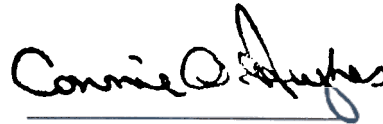
BOARD OF PUBLIC UTILITIES
BY:



JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER

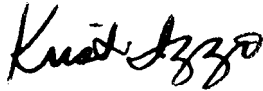


CONNIE O. HUGHES
COMMISSIONER



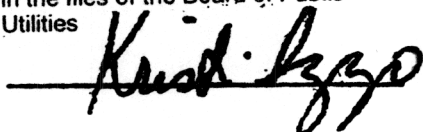
CHRISTINE V. BATOR
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

I/M/O the Petition of Atlantic City Electric Company for Approval of the Sale of its Keystone and Conemaugh Generation Station Assets

BPU Docket No. EM05121058

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June 29, 2006

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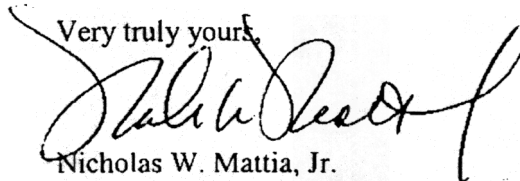
Re: In the Matter of the Petition of Atlantic City electric company Regarding the
Sale of its Keystone and Conemaugh Generation Assets BPU Docket No.
EM05121058 — **Stipulation of Settlement**

Dear Madam Secretary,

Enclosed please find an original and ten copies of the Stipulation of Settlement in the above entitled matter for filing with the Commission. The Stipulation has been executed in counterparts by each of the Signatory Parties to this matter. It is the intention of the Signatory Parties that this matter be set for the Commissioners' consideration at its agenda meeting scheduled for July 19, 2006, in order to allow for a closing to occur with respect to the sale of the referenced generation assets on September 1, 2006.

Due to the upcoming Holiday, and relocation of my firm's offices over the next week, please feel free to contact me at either (941) 358-8852 or (941) 224-6302 should you have any questions in this regard. I have enclosed an additional copy of this filing letter. Please arrange to have the additional copy of this filing letter marked "filed" and returned in the enclosed self-addressed, stamped envelope.

Very truly yours,



Nicholas W. Mattia, Jr.
Counsel for Atlantic City Electric Co.

NWM/mr

SERVICE LIST
I/M/O the Petition of Atlantic City Electric Company for Approval Of the Sale of its
Keystone and Conemaugh Generation Station Assets

BPU Docket No. EM05121058

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Updated June 30, 2006

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of Atlantic City
Electric Company Regarding the Sale of its
Keystone and Conemaugh Generation Assets

BPU Docket No.
EM05121058

**STIPULATION OF
SETTLEMENT**

APPEARANCES:

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(Dickstein Shapiro Morin & Oshinsky LLP)

Diane Schulze, Esq., Assistant Deputy Ratepayer Advocate, for the Division of
the Ratepayer Advocate (Seema M. Singh, Esq., Ratepayer Advocate)

Alex Moreau, Esq. and Arlene Pasko, Esq., Deputy Attorneys General, for the
Staff of the New Jersey Board of Public Utilities (Zulima V. Farber, Esq., Attorney
General of New Jersey)

On December 21, 2005, Atlantic City Electric Company ("Atlantic" or
the "Company") filed a Petition with the New Jersey Board of Public Utilities
("Board" or "BPU") seeking the Board's approval to sell its interests in the
Keystone and Conemaugh generation facilities and related assets, (hereinafter
"Keystone and Conemaugh"), totaling 107.9 megawatts of electric generating
capacity, for approximately \$173.1 million, based upon a proposed closing date
of September 1, 2006, and a proposed treatment of the net proceeds above book

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value and expenses of the sale. The purchaser is Duquesne Light Holdings, Inc., or one or more wholly owned subsidiaries of such company (hereinafter "DLH"). The terms and conditions of the proposed sale are set forth in a Purchase and Sale Agreement (hereinafter the "Agreement") dated as of November 14, 2005, a copy of which was provided to the Staff of the New Jersey Board of Public Utilities ("Staff"), and the New Jersey Division of the Ratepayer Advocate ("Ratepayer Advocate") (collectively, with the Company, "the Signatory Parties") as an attachment to the Petition. This current auction represents the third effort by the Company to divest its approximate 3% minority interest in Keystone and Conemaugh, as more fully described below.

On January 18, 2000, Atlantic executed a Purchase and Sale Agreement ("PSA") with NRG Energy, Inc. (NRG). The NRG PSA provided for a purchase price of \$96.1 million or \$891 per kW. By Order dated February 20, 2002, more than two years later, the BPU approved that transaction. However, by that time, NRG was positioned to exercise its right to terminate the transaction, which it did before the Board's Order became final and non-appealable.

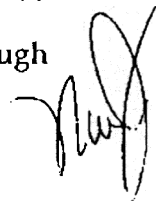
On May 23, 2002, after further consultation with the Board's Staff, Atlantic attempted to re-market Keystone and Conemaugh. However, the then current market conditions for the divestiture of generation assets had sufficiently deteriorated to prevent the Company from reaching an economically satisfactory sales agreement.

On May 6, 2005, the Company announced its intention to re-market Keystone and Conemaugh. Upon the execution of a Confidentiality Agreement, qualified potential bidders interested in acquiring Keystone and Conemaugh

were provided copies of an Offering Memorandum. A copy of the Offering Memorandum was provided as well to the Board's staff, which also executed a Confidentiality Agreement. Indicative bids were received on July 21, 2005, after which a second round of due diligence was made available to bidders. Final bids were subsequently received by the Company on September 30, 2005. The four highest bidders were then requested to resubmit their respective final bids in an effort to achieve the best and highest value for the assets. DLH submitted the highest bid and negotiations commenced with DLH on November 1, 2005. This effort resulted in the Agreement between the Company and DLH which established a sales price based upon a September 1, 2006 closing of \$173.1 million or \$1,604 per kW. This purchase price is nearly twice what the original proposed sale to NRG would have provided, and equal to or greater than any other then (i.e. as of the date of the sale) publicly announced sale of similar electric generation assets on a dollar per kw basis.

On December 21, 2005, the Company filed a petition and supporting testimony for approval of the sale of Keystone and Conemaugh. At the time of sale and prior to the filing of the instant petition, the Company met independently with both the Staff and the Ratepayer Advocate to provide each with a detailed explanation of the terms and conditions of the proposed transaction. Subsequently, the Company has responded to nearly 100 data requests, which the Signatory Parties agree are part of the record in this case.

The Company also provided an analysis of the impact on ratepayers from the proposed sale as contrasted with the estimated ratepayer impact that would result from the retention by the Company of Keystone and Conemaugh

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over its assumed remaining useful life of approximately 30 years. The analysis presented by the Company indicated that the terms and conditions of the proposed sale provide a net gain of approximately \$134 million and an economic benefit of approximately \$33 million to the Company's ratepayers compared to the Company retaining its approximate 3 percent minority ownership interests in Keystone and Conemaugh for the remainder of their useful lives. Based upon the terms and conditions of the Agreement, as well as the results of the ratepayer analysis referred to above, Atlantic strongly supports the Board's approval of the Company's Petition in this matter.

On April 6, 2006, the Ratepayer Advocate submitted the testimony of its witness, Mr. Matthew I. Kahal which included an analysis of the proposed transaction. Mr. Kahal noted that the Company's analysis of the net benefit to ratepayers is an estimate that depends on many forecasted inputs, including forecasts of energy costs through 2035. Mr. Kahal further testified that reasonable adjustments to the Company's analysis produced a Net Present Value result exceeding the net proceeds from the sale. Mr. Kahal concluded that the Board was faced with the choice of two attractive options either of which could be justified: the sale of the assets at \$173 million or retaining the assets for the continued benefit of ratepayers. The Signatory Parties agree that Mr. Kahal's April 6, 2006 testimony be entered into the record in this proceeding. The Parties recognize that the ultimate decision of whether it is in the best interest of Atlantic's ratepayers to sell Keystone and Conemaugh or retain the assets is a policy decision that may be made by the BPU.

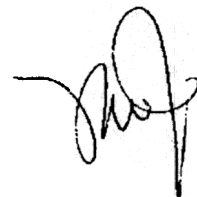
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The Agreement between Atlantic and DLH provides that for each day that the closing occurs after September 1, 2006, the closing price will be discounted by \$32,877 or approximately \$1 million per month. The Company represents that DLH has agreed that such discount will not be applied if the delay of the closing date until after September 1, 2006 is the result of the failure by DLH to perform its obligations under the agreement.

Several settlement conferences have been held among the Signatory Parties. Those discussions resulted in the following stipulations, which shall be in effect only if the Board of Public Utilities finds that the sale of Keystone and Conemaugh is in the best interest of Atlantic's ratepayers. In light of the foregoing, the Signatory Parties executing this Stipulation HEREBY STIPULATE AND AGREE as follows:

1. The Signatory Parties agree that in order to retain for the benefit of Atlantic's ratepayers the potential net revenues to be derived from Keystone and Conemaugh operations during the upcoming Summer months of June through August, closing in this matter will not occur prior to September 1, 2006.

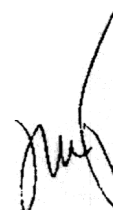
2. The Signatory Parties agree that the auction process was consistent with the auction standards established by the Board pursuant to N.J.S.A. 48:3-59(b) as set forth in *I/M/O the Request of Atlantic City Electric Company for the Establishment of Auction Standards for the Sale of Certain Non-Nuclear Generating Units*, BPU Docket No. EM99080605, Order Adopting Auction Standards, Jan. 4, 2000.

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3. Paragraph 18 of the referenced Petition is hereby modified to eliminate the reduction in the net proceeds of the sale of approximately \$6 million associated with any book-tax timing differences. The Company has confirmed that no such tax differential will be reflected as a reduction in the net proceeds of the sale, nor will it seek rate recovery of such taxes in the future.

4. The Company has estimated transaction costs of \$1.5 million associated with the sale of Keystone and Conemaugh. The actual prudently incurred transaction costs will be used to offset the gain on the sale of the assets. The Company agrees that the recoverable amount will not exceed \$1.5 million.

5. As part of its Petition in this matter, the Company in paragraph 19 thereof, referenced the Board's prior Order in BPU Docket Nos. ER03020110, et al., issued on May 26, 2005, which Order indicated that any net gain realized as the result of the sale of Keystone and Conemaugh would be returned to customers as an offset to stranded costs associated with the then contemplated shut-down of the company's B.L. England generation facility or in such other manner as the Board deems appropriate. The Signatory Parties agree to use the net proceeds from this transaction to offset the remaining unamortized aggregate adjusted deferred balance as approved New Jersey Board of Public Utilities, Order dated May 26, 2005 (BPU Dockets Nos. ER03020110, ER04060423, EO03020091 and EM02090633). This offset



of the remaining unamortized aggregate adjusted deferred balance will be reflected as a reduction of the current monthly amortization of this deferred balance in the Non Utility Generation Charge (NGC), on a per kWh basis, adjusted for loss factors. This reduction will begin with the first full billing month immediately following closing of the sale. The remaining amount will be returned to Atlantic's retail customers through a credit on a per kWh basis, adjusted for loss factors, designed to recover the remaining amount over a 33 month period to reflect the current BGS period. This credit will begin with the first full billing month immediately following closing of the sale and will be reflected as a separate line item on the customers' bills.

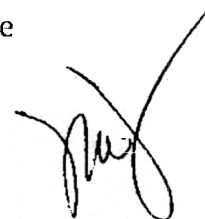
This credit will terminate at the time when the total remaining balance has been returned to customers. Interest on the gross unamortized balance will be calculated and credited on a monthly basis using the Company's pre-tax short term debt rate. The unamortized balance will not be reduced for income tax effects when calculating interest credits.

No later than 30 days prior to the anticipated termination of the credit, the Company will file a compliance filing reflecting the elimination of the credit from the tariff, and shall provide notice of same as part of its BGS public notice requirements.

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6. The Company will continue to flow through to ratepayers the accumulated deferred investment tax credit (ADITC), excess deferred federal income tax (EDFIT), and accumulated deferred federal income tax (ADFIT) associated with Keystone and Conemaugh. However, if (i) the Internal Revenue Service issues final regulations after the date of this stipulation, which regulations provide that the flow-through of ADITC, EDFIT, or ADFIT after the effective date of the sale of Keystone and Conemaugh is a violation of the normalization requirements of the Internal Revenue Code, and (ii) such regulations remain in effect after all available appeals have been exhausted or the time for making any remaining available appeals has lapsed, then the Board shall reverse any flow-through that such regulations deem to be a violation of normalization requirements.

7. It is a condition of this Stipulation that the Board adopt a final Order approving this Stipulation without change or further conditions. Should the Board fail to adopt a final Order approving this Stipulation, then this Stipulation shall be deemed null and void and of no force and effect. In the event this condition is not satisfied for any reason, then neither the existence of this Stipulation nor its provisions shall be disclosed or utilized by any Signatory Party or person for any purpose whatsoever, including in this or any other proceeding. The Signatory Parties agree that this Stipulation represents a reasonable balance of the competing interests involved in this proceeding.

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Notwithstanding anything to the contrary set forth herein, upon the occurrence of any of the following, this Stipulation shall terminate:

(a) if the Board issues a decision disapproving the Stipulation; or

(b) if the Board issues a written order approving this Stipulation subject to any condition or modification of the terms set forth herein which an adversely affected Signatory Party, in its discretion, finds unacceptable, and such Signatory Party shall serve notice of unacceptability on the other Signatory Parties within three (3) business days following receipt of the such Board Order. Absence such notification, the Signatory Parties shall be deemed to have waived their respective rights to object to or appeal the acceptability of such conditions or modifications contained in the Board Order, which shall thereupon become binding on all Signatory Parties.

8. The Staff has identified what it considers a policy decision, which is whether a sale of these assets is in the public interest in light of recent market conditions. The Staff will circulate its comments within five business days after the date of execution of this settlement. The other parties will have five business days after the filing of the Staff's comments to file their responses with the Board.

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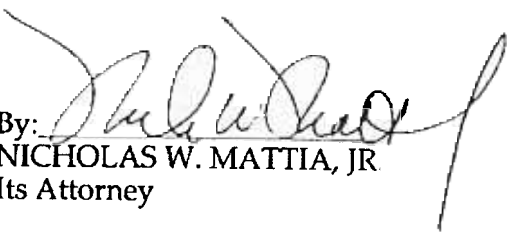
9. This Stipulation may be executed in any number of counterparts, each of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Signatory Parties.

CONCLUSION

Wherefore, for the reasons set forth above, the Signatory Parties to the Stipulation of Settlement, by execution hereof, request that if the Board makes the determination that the sale of Keystone and Conemaugh is in the best interest of Atlantic's ratepayers, that this stipulation be adopted.

Respectfully submitted,

**ATLANTIC CITY ELECTRIC
COMPANY**

By: 
NICHOLAS W. MATTIA, JR.
Its Attorney

By: _____
ZULIMA V. FARBER
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the New Jersey
Board of Public Utilities

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CONCLUSION

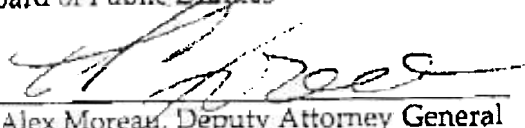
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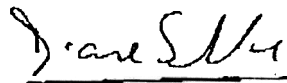
**ATLANTIC CITY ELECTRIC
COMPANY**

By: _____
NICHOLAS W. MATTIA, JR.
Its Attorney

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ATTORNEY GENERAL OF NEW JERSEY
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By: 
Alex Moreau, Deputy Attorney General
Ariene Pasiko, Deputy Attorney General

SEEMA M. SINGH, ESQ
RATEPAYER ADVOCATE

By: 
Diane Schulze
Asst. Deputy Ratepayer Advocate

Dated: June 29, 2006